BEFORE THE

STATE CORPORATION COMMISSION

OF VIRGINIA

Ex Parte, In re: Investigation of the appropriate level of intrastate access services prices	)))	CASE NO. PUC000003

MOTION TO APPROVE SETTLEMENT OF CASE

The State Corporation Commission Staff ("Staff") and Verizon South Inc. ("Verizon South"), formerly GTE South Incorporated, recognizing that the issues in this matter are contentious and that resolution of them will be time-consuming, will require the continued commitment of significant amounts of regulatory and corporate resources, and will involve extensive litigation (perhaps including an appeal to the Virginia Supreme Court), have met periodically during the past several weeks for the purposes of determining whether the matters can reasonably be settled. These two parties have reached agreement and a copy of the settlement is attached to this Motion. The Commission is requested to approve the attached settlement as final resolution of the issues in this case that involve Verizon South. This settlement agreement is similar to the agreement reached between the Staff and Verizon Virginia Inc., which is currently pending approval of this Commission. *See* Motion to Approve Settlement of Case filed by Verizon Virginia Inc. and the Staff, Case No. PUC000003 (August 8, 2000) and Order, Case No. PUC000242 (September 13, 2000).

The Staff and Verizon South request that review of the settlement be concluded in an expeditious fashion so that the switched access rate decreases and other changes called for by the agreement can be implemented quickly, perhaps as early as January 1, 2001. Specifically, to accomplish this review, Verizon South and the Staff request that consideration of this settlement be separated from the remainder of this case, that Verizon South be removed from involvement in the on-going proceedings involving the access services of other local exchange companies, and that consideration of the settlement be transferred back to the full Commission. Parties to this case should then be given an opportunity to comment on the settlement. This is the same process that was adopted for the recent settlement agreement between the Staff and Verizon Virginia Inc. *See* Order, Case No. PUC000242 (September 13, 2000).

Because the settlement agreement provides that Verizon South will file new switched access tariffs as early as December 1, 2000, to be effective as early as January 1, 2001, it is respectfully requested that this schedule be taken into account in determining the process for approving the settlement. If the schedule cannot accommodate this timing, the settlement agreement provides that the access reductions will go into effect forty-five days after approval by the Commission.

With this settlement, Verizon South agrees to reduce its switched access rates annually over each of the next five years. In doing so, Verizon

South will reduce its switched access revenues cumulatively over the five year period by an estimated **101 million** dollars.[1] Certain long distance companies have promised to pass on decreases in access rates to their long distance customers. This settlement agreement should, upon those carriers' responsible actions, thereby be in the public interest by resulting in lower long distance rates to Virginia consumers.

Wherefore, Verizon South and the Staff respectfully request that consideration of this settlement be separated from the other proceedings in this case, that the Commission itself take over review of the agreement, that the Commission establish a process for receiving comments on the settlement agreement from interested parties in this case and that review of the agreement be concluded in a timely fashion so that Verizon South might quickly file the tariff changes contemplated by the agreement.

Respectfully submitted,

______________________	______________________
Lydia R. Pulley	William H. Chambliss
Attorney for	General Counsel for
Verizon South Inc.	State Corporation Commission
600 East Main Street	1300 East Main Street
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Dated October ____, 2000

[1] Attachment A, entitled Estimated Impact of Access Rate Reductions as Contained in Settlement, contains material that is competitively sensitive and proprietary to Verizon South. The Attachment will be made available to those parties who have executed an agreement to adhere to the protective ruling entered by the Hearing Examiner on May 26, 2000, in this case.

Settlement Agreement
Case No. PUC000003
between
Verizon South Inc.
and
The Staff of the State Corporation Commission

WHEREAS, the Virginia State Corporation Commission has instituted Case No. PUC000003 to investigate the costs incurred by Verizon South Inc. ("Verizon South"), formerly GTE South Incorporated, and other named local exchange companies in providing intrastate access services and to examine whether prices for access services should remain at current levels; and

WHEREAS, Verizon South has filed in this case the costs it has determined for its switched and special access services, and the Staff of the State Corporation Commission ("Staff") has reviewed that cost information; and

WHEREAS, the Commission has previously determined that the costs of service are but one factor to be considered in pricing access services; and

WHEREAS, Verizon South takes the position that its prices for access services should not be reduced; and

WHEREAS, the Staff believes that it would be in the public interest for Verizon South's prices for switched access to be reduced and for these reductions to flow through to customers for long distance service through reductions in intrastate long distance prices; and

WHEREAS, Verizon South takes the legal position that any order requiring it to reduce its revenues from access services must also allow it to raise the prices for other services to offset the lost revenue; and

WHEREAS, the Staff does not agree with Verizon South's legal position, but recognizes that such claim might be the subject of protracted litigation; and

WHEREAS, the Staff and Verizon South acknowledge that a settlement on these issues may avoid protracted, time-consuming and expensive litigation;

NOW THEREFORE, in consideration of the foregoing, the Staff and Verizon South agree as follows:

1. Staff and Verizon South will jointly present the terms of this agreement in Case No. PUC000003, and each party will support the settlement and urge its adoption by the Commission as a fair and reasonable resolution of all issues pending in this case. The Staff and Verizon

South further believe that adoption of the terms of this agreement would represent a fair resolution of all issues in this docket.

2. The specific changes in switched access prices agreed to by Verizon South and the Staff are outlined in the Appendix to this agreement. The benefits of this agreement would flow from a reduction in Verizon South's prices for switched access service. Certain long distance companies doing business in Virginia, including AT&T, have promised to pass on these decreases to their long distance customers. This agreement should, upon those carriers' responsible actions, thereby result in lower long distance rates to customers. Moreover, Verizon South has agreed not to seek price increases for other services in order to offset any reduction in its revenues coming from the reduced access service prices described in this Settlement Agreement. Nothing in this agreement changes the pricing flexibility allowed Verizon South under its Alternative Regulatory Plan or any future Plan under which Verizon South might operate.

3. A subsidiary benefit of adoption of this agreement will be to resolve what could potentially be burdensome and expensive litigation and appeals, thereby saving costs for the parties to the case and the Commonwealth.

4. It is expressly understood and agreed that, as between the Staff and Verizon South, this agreement constitutes a negotiated resolution of this case with the bargained-for concessions supporting and being consideration only for the conditions contained herein.

5. This agreement is subject to all applicable administrative and common law treatments of settlement offers and negotiations. As between the Staff and Verizon South, this agreement resolves, with prejudice, the issues arising in this case and precludes the parties hereto from contesting the positions taken herein with respect to any issue encompassed within this agreement during any subsequent litigation; provided, however, that this agreement is made without admission against or prejudice to any factual or legal positions that either Verizon South or the Staff may assert (i) in the event that the Commission does not approve this settlement agreement without modification or that any order of the Commission so approving this settlement agreement is reversed or modified by action of an appellate court, or (ii) in other proceedings before the Commission or other forums as long as such positions are not in derogation of this settlement agreement. This agreement shall not constitute or be cited as controlling precedent against either the Staff or Verizon South or its affiliated local telephone companies in any other state or federal proceedings. Nothing in this

agreement changes the Staff's ongoing responsibilities or obligations to the Commission under its rules.

6. This settlement is expressly conditioned upon the Commission's approval of all of the specific terms and conditions contained herein without modification. If the Commission should fail to grant such approval, or should adversely modify any material term or condition herein, either party hereto may withdraw, in whole or part, from this agreement, upon written notice filed within 10 days of service of the Commission's Order. In the event of any such withdrawal, the parties hereto shall have all legal rights they may have waived by entering into this agreement.

NOW THEREFORE, Verizon South and the Staff, intending to be legally bound, and certifying that undersigned have full authority to act on behalf of their respective parties, hereby affix their signatures to this settlement agreement.

______________________	______________________
For The Staff of the State Corporation Commission	For Verizon South Inc.

Dated October __, 2000

APPENDIX
TO
SETTLEMENT AGREEMENT
CASE NO. PUC000003

Verizon South Inc. (“Verizon South”) agrees that it will take the following actions to modify the rates for its intrastate, switched access services:

I. The Changes to Be Effective January 1, 2001, or no more than 45 Days Following the Commission Order Approving the Settlement Agreement, whichever is later.

Verizon South will file with the State Corporation Commission revised intrastate switched access tariffs to be effective January 1, 2001, or no more than 45 days following the Commission Order approving the Settlement Agreement, whichever is later, which intend to accomplish two basic goals: first, the rates will be restructured on a revenue neutral basis to align the rate structure more closely to that employed in the Company’s interstate switched access tariffs; and, second, the Company will concurrently begin the first of five annual reductions in the rate for the Carrier Common Line Access Service Charge (the “CCLC”) designed to freeze the annual revenue produced by the CCLC on January 1, 2005, at $12 million for the year 2005. These changes will be accomplished as follows:

A. The Rate Restructuring.

Verizon South will eliminate the Information Surcharge from the tariff and will transfer recovery of the revenue to the flat-rated CCLC. In addition, the local switching rate will be reduced to a rate of $0.01 per minute of use (“MOU”) and the resulting reduction in revenue will also be recovered from the CCLC.

As described above, the restructured CCLC rate will be designed to recover the revenues produced by the existing CCLC, the revenues produced by the Information Surcharge, and the difference between Verizon South’s Local Switching revenues and what it would have received had its Local Switching rate not been reduced to $0.01/MOU.

B. The Reduction in the CCLC.

Verizon South will file tariffs with revised switched access rates to be effective the later of January 1, 2001, or no more than 45 days following the Commission Order approving the Settlement Agreement that will modify the CCLC so that Verizon South will collect $1,958,333 in revenues from the CCLC per month for the remainder of 2001. If the reduction is implemented on January 1, 2001, this freezes Verizon South's CCLC revenue at $23.5 million for the year. This monthly charge will be divided among switched access customers according to their minutes of use market share. For example, if the reductions go in effect on January 1, 2001, and if total local switching usage were 400,000,000 minutes for December 2000 and an individual switched access customer used 50,000,000 of these minutes in December 2000, the customer's January 2001 CCLC payment to Verizon South would be calculated as follows:

(50,000,000 / 400,000,000) * $1,958,333 = $244,792.

II. The Changes To Be Effective in 2002 through 2005.

A. The Changes to be Effective January 1, 2002.

On or before December 1, 2001, Verizon South will file tariffs with revised switched access rates to be effective January 1, 2002, that will modify the CCLC so that Verizon South will collect $1,750,000 in revenues from the CCLC per month. This freezes Verizon South's CCLC revenue at $21.0 million for the year. This monthly charge will be divided among switched access customers according to their minutes of use market share as described in paragraph I.B above.

B. The Changes to be Effective January 1, 2003.

On or before December 1, 2002, Verizon South will file tariffs with revised switched access rates to be effective January 1, 2003, that will modify the CCLC so that Verizon South will collect $1,508,333 in revenues from the CCLC per month. This freezes Verizon South's CCLC revenue at $18.1 million for the year. This monthly charge will be divided among switched access customers according to their minutes of use market share as described in paragraph I.B above.

C. The Changes to be Effective January 1, 2004.

On or before December 1, 2003, Verizon South will file tariffs with revised switched access rates to be effective January 1, 2004, that will modify the CCLC so that Verizon South will collect $1,250,000 in revenues from the CCLC per month. This freezes Verizon South's CCLC revenue at $15.0 million for the year. This monthly charge will be divided among switched access customers according to their minutes of use market share as described in paragraph I.B above.

D. The Changes to be Effective January 1, 2005.

On or before December 1, 2004, Verizon South will file tariffs with revised switched access rates to be effective January 1, 2005, that will modify the CCLC so that Verizon South will collect $1,000,000 in revenues from the CCLC per month. This freezes Verizon South's CCLC revenue at $12.0 million per year. This monthly charge will be divided among switched access customers according to their minutes of use market share. For example, if total local switching usage were 400,000,000 minutes for December 2004 and an individual switched access customer used 50,000,000 of these minutes in December 2004 the customer's January 2005 CCLC payment to Verizon South would be calculated as follows:

(50,000,000 / 400,000,000) * $1,000,000 = $125,000.